

RAILROAD COMMISSION OF TEXAS

Victor G. Carrillo, *Chairman*
Elizabeth A. Jones, *Commissioner*
Michael L. Williams, *Commissioner*

INTERNAL
Gil Bujano, PE
Acting Deputy Director for Technical Permitting Oil and Gas Division

MEMORANDUM

TO: Colin Lineberry, Hearings Director – Office of General Counsel

THROUGH: Gil Bujano – Assistant Director for Environmental Services

FROM: Doug Johnson

DATE: August 24, 2010

SUBJECT: Request for a Hearing Pursuant to the Provisions of 16 TAC § 3.46(d)(1) to Provide BLSR Operating, Ltd (“BLSR”, Operator Identification No. 076398) an Opportunity to Show Cause Why the Commission Should Not Suspend, Modify or Terminate the Permits to Inject Fluid into a Reservoir Productive of Oil or Gas for Wells No. 1, 4, 5, 6, 8, and 10, Caldwell, J. H. Lease (11490), Juliff (7660) Field, Brazoria County, Texas [Project No. F-14653]

Oil and Gas Division staff requests the Office of General Counsel convene a hearing to provide BLSR an opportunity to show cause why the subject permits should not be terminated. Information constituting just cause for suspension, modification or termination of the subject permits is briefly summarized as follows:

- On February 17, 2010, BLSR reported to the Commission’s district office that fluids were flowing from the ground on property adjacent to the subject lease (“breakout”).
- Reports from BLSR to the district reflect that fluid flow decreased upon cessation of injection into Well No. 4.
- BLSR was subsequently directed to cease injection into BLSR’s two other active injection wells, Nos. 1 and 10. Wells No. 5, 6, and 8 have been authorized but not drilled, though their permitted injection intervals are similar to Wells No. 1, 4, and 10.

- BLSR has unsuccessfully attempted to locate a cased borehole in the area where the breakout occurred.
- The absence of a cased borehole precludes any method to isolate any connection between the injection wells and the breakout.
- Therefore, the breakout is considered by Commission staff to be evidence that injected fluids have escaped the permitted injection zone, 16 TAC §3.46(d)(1)(E), and that freshwater is likely to be polluted as a result of continued operation of the wells, 16 TAC §3.46(d)(1)(B). Accordingly, the subject permits are to be terminated for just cause.

BLSR was notified by letter dated March 4, 2010, that the injection permits were subject to termination and that it had the right to request a hearing to show cause why the permits should not be terminated. BLSR responded by letter dated April 1, 2010, and requested a hearing. In the mean time, BLSR has been allowed to conduct certain tests in an attempt to identify the cause(s) or mechanism(s) of the breakout. However, as of the date of this memorandum, BLSR has not provided the results of these testing operations or otherwise identified any information that would contradict staff's conclusion that the breakout establishes the fact that fluids have not been confined to the permitted injection interval and that continued operation of the injection wells would present a predictable threat to useable quality water resources.

The Notice of the Hearing in this matter should be sent to the following persons:

John H. Caldwell, Jr.
BLSR Operating, Ltd
11160 FM 521
Rosharon, Texas 77583

Gil Bujano, PE – Acting Deputy Director for Technical Permitting

Doug O. Johnson, PE – Manager for Injection – Storage Permits and Support

Mary "Polly" Ross McDonald, Managing Director – Special Counsel Section

David Cooney, Attorney – Special Counsel Section